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**EGY103047.E**

Egypt: Nature and extent of the use of "loan sharks"; legal ramifications for person indebted to a loan shark; police complicity with loan sharks

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The term "loan shark" refers to a "person who lends money at an extremely high or unlawful rate of interest" (*Gage Canadian Concise Dictionary* 2002, 519). In a telephone interview with the Research Directorate, a representative of the Egyptian Organization for Human Rights (EOHR) indicated that loan sharks exist in Egypt but that the practice is not a "widespread phenomenon" (EOHR 26 Jan. 2009).

According to the American Chamber of Commerce in Egypt's publication *Business Monthly*, Islam forbids *riba*, which can be defined as "a return on money for lending money in which the borrower bears all the risk" (American Chamber of Commerce in Egypt June 2007). *Arabian Business* reports that although there is debate as to whether *riba* encompasses all types of interest or only applies to usury, defined as "excessive interest rates common in loan sharking," Islamic scholars agree that certain "predatory lending practices" are forbidden (17 Aug. 2007).

According to another article in *Business Monthly*, published in January 2003, no more than 10 percent of Egyptians have bank accounts and formal financial institutions are used mostly by the "affluent" (American Chamber of Commerce in Egypt Jan. 2003). The article provides details on alternatives, such as a type of interest-free informal group loan practice common in Egypt, and also mentions "informal moneylenders" as sources of financing (*ibid.*).

According to a study on microfinance in Egypt, produced by the Egyptian Banking Institute (EBI) in coordination with the Social Development Fund (SDF), poor Egyptians lack access to formal financial institutions and often resort to taking loans from lenders at high interest rates or using local rotating savings and credit circles, which require deposits and inflexible loan amounts (EBI/SDF 2005, 7). The same study characterizes Egypt's informal financing system as "costly, risky, and inconvenient" (*ibid.*).

PlaNet Finance, an international organization based in Paris which aims to help poor people by developing microfinance sectors (PlaNet Finance n.d.), conducted a national survey from September 2007 to January 2008 of the microfinance sector in Egypt (PlaNet Finance May 2008, 13). According to their research, 30 percent of the Egyptian microfinance clients surveyed had received financing in the previous three years (*ibid.*, 69). Of this 30 percent, 12 percent received a loan from a moneylender or supplier, representing 3.6 percent of all those surveyed (*ibid.*). The survey lists ROSCA (45 percent) (defined as an "informal group saving and lending scheme"), family or friend (31 percent), or another microfinance institution (MFI) (29 percent) as more common sources of loans than banks (14 percent) or moneylenders (12 percent) (*ibid.*). The survey indicates that the average loan size from moneylenders is smaller than loans from banks, but higher than other informal lending sources such as ROSCA and family members (*ibid.*, 70).

The *Egypt Human Development Report 2008*, produced by the United Nations Development Programme (UNDP) and the Institute of National Planning, Egypt, states that small enterprises which employ fewer than 50 people face difficulties getting loans from formal lending institutions and "rely on personal resources and informal financing mechanisms" (UNDP/Institute of National Planning 2008, 150). The report notes that according to a 2003-2004 study of a sample 5,000 enterprises, 2.6 percent of small businesses rely on "informal loans" as their source of initial capital (*ibid.*, 150-151). Savings (67.1 percent) and inheritance (21.0 percent) are listed as more common sources of initial capital, while formal loans account for 3.5 percent (*ibid.*).

### Legal ramifications

The Representative from the EOHR stated that the legal ramifications depend on what type of documentation the moneylender possesses (EOHR 26 Jan. 2009). For example, if a debtor writes bad cheques, he can be taken to court and face imprisonment (*ibid.*). According to the Representative of EOHR, there are laws in Egypt prohibiting loan sharking (*ibid.*).

Further or corroborating information on the legal ramifications for a person indebted to a loan shark could not be found among the sources consulted by the Research Directorate.

## Police complicity with loan sharks

According to the Representative from EOHR, police do not commonly cooperate with loan sharks (ibid.). Further or corroborating information on police complicity with loan sharks could not be found among the sources consulted by the Research Directorate.

## Corruption

Multiple sources, including the United States (US) *Country Reports on Human Rights Practices for 2007*, Freedom House and the EOHR indicate that corruption is a problem in Egyptian society (US 11 Mar. 2008; EOHR 28 Aug. 2008; Freedom House 2008). Transparency International (TI) gives Egypt a 2.8 out of 10 in its 2008 *Corruption Perception Index* (CPI) and ranks Egypt as 115 out of 180 countries in the world (listed from least corrupt to most corrupt) (TI 2008). Freedom House reports that corruption is "all pervasive," and that "daily acts of corruption are part of every Egyptian's life" (Freedom House 2008).

This Response was prepared after researching publicly accessible information currently available to the Research Directorate within time constraints. This Response is not, and does not purport to be, conclusive as to the merit of any particular claim for refugee protection. Please find below the list of sources consulted in researching this Information Request.

### References

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### Additional Sources Consulted

**Oral sources:** An economics professor at the American University of Cairo and a lead economist at the Egyptian Center for Economic Studies were unable to provide information.

**Internet sources, including:** *Al-Ahram Weekly* [Cairo], American Chamber of Commerce in Egypt, ArabicNews.com, *Business Today Egypt*, *Daily News Egypt*, Egyptian Centre for Economic Studies, Factiva, *Gulf News* [Dubai], *Middle East Times* [Washington, DC]

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